China State Construction Engineering Corporation (601668 CH)

9M26: Net Profit Down 27.4%; Committed To Stable DPS

Highlights

- 9M26 attributable net profit fell 24.8% yoy to Rmb28.7b on lower revenue and higher R&D, SG&A and impairment cost ratios. The construction segment improved with margin expansion and a return to order growth in 3Q26.
- Management reiterates targets of stable DPS, higher positive OCF and stable impairment for 2026. The stake purchase programme will continue.
- Maintain HOLD with a largely unchanged target price of Rmb4.88.

9M26 Results

Year to 31 Dec (Rmbb)	3Q25	2Q26	3Q26	3Q26 yoy	3Q26 qoq	9M25	9M26	yoy
Revenue	450	464	360	-20.0%	-22.4%	1,558	1,336	-14.3%
- housing construction	292	239	215	-26.3%	-9.9%	989	787	-20.4%
- infrastructure	97	128	84	-13.7%	-34.4%	371	330	-10.8%
- property development	45	100	45	+0.1%	-54.6%	177	197	+11.4%
Gross profit	31	60	29	-7.2%	-51.3%	136	130	-4.6%
Attributable net profit	7.8	9.1	5.7	-26.7%	-37.3%	38.2	28.7	-24.8%
Core net profit	7.7	6.1	5.6	-26.8%	-8.1%	35.2	25.6	-27.4%
Core EPS (Rmb)	0.19	0.15	0.14	-26.8%	-8.1%	0.85	0.62	-27.4%
Gross profit margin	7.0%	12.9%	8.1%	+1.1ppt	-4.8ppt	8.7%	9.7%	+1.0ppt
- housing construction	6.4%	10.8%	7.3%	+0.9ppt	-3.4ppt	7.1%	8.0%	+0.9ppt
- infrastructure	7.4%	12.6%	10.0%	+2.6ppt	-2.7ppt	9.5%	10.6%	+1.1ppt
- property development	9.2%	15.7%	8.1%	-1.1ppt	-7.6ppt	14.2%	13.4%	-0.8ppt
SG&A to revenue	1.64%	2.35%	1.99%	+0.35ppt	-0.36ppt	1.81%	2.06%	+0.25ppt
R&D to revenue	1.46%	2.29%	1.64%	+0.19ppt	-0.65ppt	1.54%	1.66%	+0.12ppt
Impairment to revenue	0.08%	2.16%	0.03%	-0.05ppt	-2.13ppt	0.51%	0.76%	+0.25ppt
Net profit margin	1.73%	1.97%	1.59%	-0.14ppt	-0.38ppt	2.45%	2.15%	-0.30ppt
Net gearing ratio	66.7%	65.6%	69.7%	+3.0ppt	+4.1ppt	66.7%	69.7%	+3.0ppt
Debt to asset ratio	76.1%	77.1%	77.1%	+1.0ppt	-0.1ppt	76.1%	77.1%	+1.0ppt

Source: CSCEC, UOB Kay Hian

Analysis

- **Net profit fell 24.8% yoy in 9M26 and 26.7% in 3Q26.** China State Construction Engineering Corporation's (CSCEC) 9M26 attributable net profit declined 24.8% yoy to Rmb28.7b, and 3Q26 attributable net profit fell 26.7% yoy to Rmb5.7b. 3Q26 revenue dropped 20.0% yoy, led by housing construction. Gross profit margin rose 1.0ppt yoy to 9.7% in 9M26, supported by margin improvement of housing and infrastructure construction. However, impairment/SG&A/R&D to revenue ratios rose 0.25ppt/0.25ppt/0.12ppt yoy respectively, resulting in 0.3ppt yoy decline in net margin. Net gearing rose 3.0ppt yoy to 69.7% as of Sep 26.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	2,187,148	2,082,142	1,883,931	1,829,880	1,805,390
EBITDA	111,671	100,178	87,936	86,874	89,620
Operating profit	96,371	84,878	72,136	71,074	73,820
Net profit (rep./act.)	46,187	39,069	32,702	33,017	33,932
Net profit (adj.)	46,187	39,069	32,702	33,017	33,932
EPS (fen)	113.7	96.2	80.5	81.3	83.5
PE (x)	4.1	4.8	5.8	5.7	5.6
P/B (x)	0.4	0.4	0.4	0.4	0.3
EV/EBITDA (x)	9.7	10.8	12.4	12.5	12.1
Dividend yield (%)	5.8	5.8	5.9	5.9	5.9
Net margin (%)	2.1	1.9	1.7	1.8	1.9
Net debt/(cash) to equity (%)	95.2	107.7	105.4	128.6	120.3
Interest cover (x)	5.7	5.7	5.0	5.4	5.2
ROE (%)	10.4	8.2	6.5	6.3	6.2
Consensus net profit (Rmbm)	-	-	34,365.3	37,537.2	37,123.0
UOBKH/Consensus (x)	-	-	0.95	0.88	0.91

Source: CSCEC, Bloomberg, UOB Kay Hian

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HOLD (Maintained)

Share Price	Rmb4.65
Target Price	Rmb4.88
Upside	+5.0%
Previous TP	Rmb4.90

Stock Data

GICS sector	Industrials
Bloomberg ticker:	601668 CH
Shares issued (m):	41,320.4
Market Cap (Rmbm):	192,139.8
Market cap (US$m):	28,901.5
3-mth avg t'over (US$m):	146.3

Price Performance (%)

52-week high/low				Rmb5.45/Rmb4.22
1mth	3mth	6mth	1yr	YTD
7.1	(1.1)	(5.3)	(14.4)	(9.4)

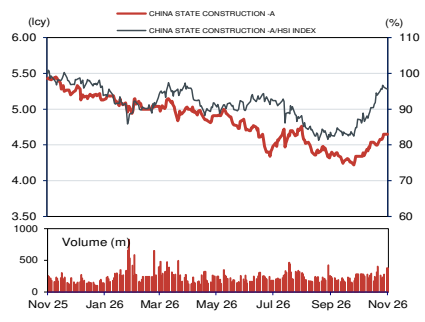
Major Shareholders (%)

China State Construction Engineering Group	57.8

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	12.42
FY26 Net Debt/ Share (Rmb)	13.33

Price Chart



Source: Bloomberg, UOB Kay Hian

Company Description

China State Construction Engineering Corporation is the world's largest construction company by revenue and a Shanghai-listed subsidiary of the state-owned China State Construction Engineering Group. It operates in housing construction, infrastructure construction and investment, property development and investment, and survey and design, and is the controlling shareholder of China Overseas Land & Investment.

- **Despite slower revenue recognition, construction margins improved while new orders returned to growth in 3Q26.** Building construction revenue fell 20.4% yoy to Rmb786.8b, but gross margin expanded 0.9ppt to 8.0%. Infrastructure revenue declined 10.8% to Rmb330.3b, while margin rose 1.1ppt to 10.6%. New contracts rebounded 4.0% yoy to Rmb824.3b in 3Q26 after two quarters of declines, supported by infrastructure (+16.2%) and overseas construction (+157.2%) orders. In 9M26, growth in industrial plant (+23.0%) and data centre (+105.0% to Rmb110.0b) orders offset declines in residential (-14.9%) and energy engineering (-12.6%) orders.
- **Operating cash flow slipped in 3Q26; management reiterated targets of positive growth in OCF for 2026.** 3Q26 net operating cash turned negative at Rmb16.9b, as compared with net operating cash inflow of Rmb13.2b in 3Q25, due to increased downstream payments. However, 1Q-3Q26 operating cash outflow narrowed by Rmb24.2b yoy to Rmb45.4b, supported by a recovery of over Rmb100b in overdue government receivables. For 2026, management has reiterated its target of positive and yoy growth in OCF.
- **Impairment eased in 3Q26; keeping full-year charges flat yoy will remain a challenge.** 3Q26 impairment fell 66.8% yoy to Rmb0.12b, while 9M26 impairment rose 27.4% yoy to Rmb10.16b. Management has reiterated its guidance that 2026 impairment will not exceed 2025's level of Rmb25.87b. This leaves room for up to Rmb15.7b in 4Q26, 12.2% less than in 4Q25, which might be challenging in a weak macro environment.

Key Operational Figures

	9M25	9M26	yoy	3Q25	3Q26	yoy
New contracts, total (Rmb b)	3,293.6	3,289.0	-0.1%	792.6	824.3	**+4.0%**
- construction	3,038.3	3,050.3	+0.4%	711.8	759.2	**+6.7%**
- housing construction	2,014.6	2,085.2	+3.5%	518.2	534.1	**+3.1%**
- infrastructure	1,014.4	956.0	-5.8%	190.7	221.6	**+16.2%**
- survey and design	9.2	9.2	-0.5%	2.8	3.6	**+28.6%**
Overseas new contracts (Rmb b)	151.5	259.9	+71.6%	36.7	94.4	**+157.2%**
HC area under construction (m sqm)	1,570.5	1,533.8	-2.3%	-	-	**-**
HC new starts (m sqm)	194.5	159.3	-18.1%	65.0	51.3	**-21.1%**
HC completions (m sqm)	141.9	125.5	-11.6%	60.0	47.3	**-21.2%**
Property contracted sales (Rmb b)	255.3	238.6	-6.5%	80.8	65.0	**-19.6%**

Source: CSCEC, UOB Kay Hian

- **Management reiterates target of stable DPS in 2026 and vows to continue stake increase.** Despite lower 9M26 earnings, management reiterated that 2026 DPS would remain stable. Controlling shareholder CSCEC Group plans to acquire Rmb500m–1b of shares by 20 Jul 27 under its eighth share purchase programme, with around Rmb80m purchased so far. Management has vowed to carry out further purchases to support shareholder return.

Valuation/Recommendation

- **Maintain HOLD on CSCEC with a largely unchanged SOTP-based target price of Rmb4.88.** Despite lowering our earnings forecasts, we slightly raise our target EV/EBITDA multiple to 11x for the construction segment to reflect improving earnings and order growth. Our target price implies a 5.6% 2026 dividend yield. In a falling rate environment, yield remains the main support for share price.

Earnings Revision/Risk

- We lower 2026/27/28 earnings forecasts by 7.1%/10.8%/11.4% respectively to factor in slower revenue recognition, higher gross profit margin and higher impairment/R&D/SG&A ration.

Share Price Catalyst

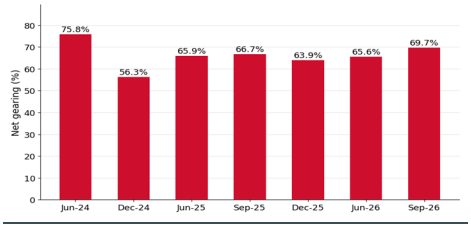
- Stronger-than-expected property and fiscal stimulus measures.

Impairment Provisions

(Rmb b)	9M26	9M25	yoy
Credit impairment loss	7.29	6.20	+17.6%
Asset impairment loss	2.87	1.78	+61.3%
Total impairment	10.16	7.98	+27.4%

Source: CSCEC, UOB Kay Hian

Net Gearing Ratio



Source: CSCEC, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	2,082,141.8	1,883,930.5	1,829,880.4	1,805,390.1
EBITDA	100,177.6	87,936.5	86,873.6	89,620.3
Deprec. & amort.	15,300.0	15,800.0	15,800.0	15,800.0
EBIT	84,877.6	72,136.5	71,073.6	73,820.3
Total other non-operating income	1,272.8	0.0	0.0	0.0
Associate contributions	1,713.0	1,738.7	1,764.8	1,791.2
Net interest income/(expense)	(17,641.8)	(17,537.8)	(15,962.1)	(17,150.1)
Pre-tax profit	70,221.6	56,337.4	56,876.3	58,461.4
Tax	(16,664.0)	(12,011.7)	(12,124.5)	(12,467.4)
Minorities	(14,488.6)	(11,623.9)	(11,735.1)	(12,062.2)
Net profit	39,069.0	32,701.8	33,016.6	33,931.8
Net profit (adj.)	39,069.0	32,701.8	33,016.6	33,931.8

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	220,629.1	238,650.8	256,698.6	257,273.7
Other LT assets	733,534.0	727,076.7	765,439.4	799,268.0
Cash/ST investment	411,670.2	419,364.6	288,524.5	317,373.9
Other current assets	2,194,846.5	1,880,975.1	1,991,098.2	1,962,316.2
Total assets	3,560,679.8	3,266,067.2	3,301,760.7	3,336,231.8
ST debt	297,294.2	304,561.5	307,720.1	305,848.2
Other current liabilities	1,768,582.4	1,410,099.2	1,386,055.1	1,374,287.5
LT debt	643,678.3	656,475.4	669,528.4	682,842.4
Other LT liabilities	28,616.7	28,616.7	28,616.7	28,616.7
Shareholders' equity	491,555.6	513,737.9	535,528.9	558,263.2
Minority interest	330,952.6	352,576.5	374,311.6	386,373.8
Total liabilities & equity	3,560,679.8	3,266,067.2	3,301,760.7	3,336,231.8

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	20,537.1	119,869.9	(6,547.9)	141,943.5
Profit fo the year	70,221.6	56,337.4	56,876.3	58,461.4
Tax	(16,664.0)	(12,011.7)	(12,124.5)	(12,467.4)
Deprec. & amort.	15,300.0	15,800.0	15,800.0	15,800.0
Associates	(1,713.0)	(1,738.7)	(1,764.8)	(1,791.2)
Working capital changes	(174,835.6)	18,511.1	(106,093.1)	42,163.0
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	128,228.1	42,971.7	40,758.2	39,777.7
Investing	(32,150.0)	(40,000.0)	(40,000.0)	(40,000.0)
Capex (growth)	(65,659.2)	(40,000.0)	(40,000.0)	(40,000.0)
Investment	163,996.4	175,735.1	187,499.9	189,291.1
Others	(163,996.4)	(175,735.1)	(187,499.9)	(189,291.1)
Financing	11,579.4	3,036.6	(1,836.1)	(11,274.6)
Dividend payments	(11,231.0)	(11,118.6)	(11,225.7)	(11,197.5)
Proceeds from borrowings	68,486.3	33,429.3	26,979.7	19,163.3
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(45,675.9)	(19,274.1)	(17,590.2)	(19,240.4)
Net cash inflow (outflow)	(33.5)	82,906.4	(48,384.0)	90,668.9
Beginning cash & cash equivalent	424,396.1	411,670.2	419,364.6	288,524.5
Changes due to forex impact	(12,406.8)	(75,212.0)	(82,456.1)	(61,819.5)
Ending cash & cash equivalent	411,955.8	419,364.6	288,524.5	317,373.9

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	4.8	4.7	4.7	5.0
Pre-tax margin	3.4	3.0	3.1	3.2
Net margin	1.9	1.7	1.8	1.9
ROA	1.2	1.0	1.0	1.0
ROE	8.2	6.5	6.3	6.2
Growth				
Turnover	(4.8)	(9.5)	(2.9)	(1.3)
EBITDA	(10.3)	(12.2)	(1.2)	3.2
Pre-tax profit	(12.3)	(19.8)	1.0	2.8
Net profit	(15.4)	(16.3)	1.0	2.8
Net profit (adj.)	(15.4)	(16.3)	1.0	2.8
EPS	(15.4)	(16.3)	1.0	2.8
Leverage				
Debt to total capital	53.4	52.6	51.8	51.1
Debt to equity	191.4	187.1	182.5	177.1
Net debt/(cash) to equity	107.7	105.4	128.6	120.3
Interest cover (x)	5.7	5.0	5.4	5.2

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